

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 STRE-00 STR-04 XMB-02 L-03  
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EB-07 EA-07 FRB-03 INR-07 NEA-10 NSAE-00 OPIC-03  
SP-02 TRSE-00 LAB-04 EPG-02 SIL-01 AGRE-00 OMB-01  
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O R 111944Z MAY 77  
FM USMISSION OECD PARIS  
TO SECSTATE WASH DC IMMEDIATE 6586  
INFO ALL OECD CAPITALS  
USMISSION EC BRUSSELS  
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C O N F I D E N T I A L SECTION 01 OF 04 OECD PARIS 13957

PASS TREASURY, STR, FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: ECON, ETRD, EFIN, OECD  
SUBJECT: XCSS DISCUSSION OF ECONOMIC RELATIONS AMONG  
OECD COUNTRIES, INCLUDING TRADE PLEDGE (WITH BACK-  
GROUND OF LONDON SUMMIT AND NEED TO PREPARE FOR  
OECD MINISTERIAL)

REF: (A) STATE 105533, (B) OECD 13199

1. SUMMARY. XCSS DEVOTED OVER HALF OF ITS ONE DAY  
SESSION TO INTRA-OECD ECONOMIC RELATIONS (INCLUDING  
TRADE PLEDGE) IN THE WAKE OF THE DOWNING STREET SUMMIT  
AND LOOKING AHEAD TO PREPARING OECD MINISTERIAL. A  
NUMBER OF COUNTRIES, INCLUDING FRENCH, JAPANESE AND  
SWISS REPS, CALLED FOR IMPLEMENTATION OF FINANCIAL  
SUPPORT FUND. COOPER SAID US COULD GO ALONG WITH  
RENEWAL OF TRADE PLEDGE AS URGED BY FRG (STEEG), EC  
AND OTHERS, BUT SUGGESTED THAT TRADE COMMITTEE CONSIDER  
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POSSIBILITY OF UPDATING CLEARLY ANACHRONISTIC ASPECTS  
AS WELL AS HOW TO CONSULT ON PARTICULAR SECTORAL  
PROBLEMS (CITING STEEL AS EXAMPLE). XCSS DISCUSSION  
OF RELATIONS WITH DEVELOPING COUNTRIES AND OF EAST-WEST  
ISSUE IS REPORTED IN SEPTEL. END SUMMARY.

2. AS AGREED AT MAY 9 RESTRICTED DINNER, XCSS MEETING

ON MAY 10 WAS STRUCTURED AROUND PRESENTATIONS BY REPS OF COUNTRIES PARTICIPATING IN DOWNING STREET SUMMIT ON VARIOUS ASPECTS OF THE TOPICS BEING CONSIDERED AT THE XCSS, WITH EACH PRESENTATION BEING FOLLOWED BY QUESTIONS AND COMMENTS. DINNER MEETING DISCUSSED ROLE OF OECD IN FOLLOW-UP TO SUMMIT, LOOKING AHEAD PARTICULARLY TO JUNE 23-24 MINISTERIAL. XCSS PLENARY GAVE EXPLICIT GUIDANCE FOR PREPARATIONS ON TRADE PLEDGE, AND FOR OTHER ISSUES CHAIRMAN (JOLLES) NOTED XCSS AGREEMENT THAT VAN LENNEP DRAW ON XCSS DISCUSSIONS IN GUIDING PREPARATORY WORK FOR MINISTERIAL. (UNDER SECRETARY COOPER HAD INDICATED TO DINNER MEETING THAT OECD FOLLOW UP TO SUMMIT'S CONSIDERATION OF MACRO-ECONOMIC ISSUES THROUGH MINISTERIAL, AND THEREAFTER, COULD BEST BE MADE IN FORM OF ITS TRADITIONAL MONITORING OF COUNTRIES' ECONOMIC PERFORMANCE AND PROVIDING ANALYSIS AND RECOMMENDATIONS FOR POLICY. VAN LENNEP MENTIONED HE FELT OECD COULD PARTICULARLY INTENSIFY WORK ON A) REFINING APPROPRIATE POLICY STANCES WITHIN THE "BAND" OF OBJECTIVES SET BY THE MEDIUM-TERM STRATEGY AND B) STRUCTURAL PROBLEMS, SUCH AS YOUTH UNEMPLOYMENT. HE FORESAW CONTINUED STRUCTURAL PROBLEMS AS STRATEGY IS PURSUED AND A CONSEQUENT NEED TO PAY CAREFUL ATTENTION TO THEM.)

3. OPENING STATEMENT BY SECRETARIAT (MARRIS) COVERED RECENT DEVELOPMENTS IN GENERAL ECONOMIC SITUATION FACING OECD COUNTRIES. HE FOUND LITTLE CHANGE IN OVERALL OUTLOOK FROM EARLY SPRING BUT CONTRASTED FAVORABLE DEVELOPMENTS ON GROWTH, EMPLOYMENT AND

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INVESTMENT FOR US, AGAINST WEAKER RECOVERY IN EUROPE WHERE UNEMPLOYMENT IS RISING AND INVESTMENT IS SLUGGISH. THE INFLATION SITUATION HAS WORSENERD SOMEWHAT. TRADE VOLUME EXPECTED TO RISE MODESTLY BY 6-7 PERCENT THIS YEAR WITH DEMAND BEING SOMEWHAT WEAKER THAN ANTICIPATED FROM WITHIN OECD AND SOMEWHAT STRONGER FROM NON-OECD SOURCES. OECD CURRENT ACCOUNT DEFICIT NOW EXPECTED TO RISE -- TO SOME \$30 BILLION -- INSTEAD OF FALLING, REFLECTING IN PART GREATER US OIL IMPORTS AND IN PART HIGHER COMMODITY PRICES. TWO CONSEQUENCES MARRIS FOUND IN COMMODITY PRICE DEVELOPMENTS WERE: A) BOOST TO OECD INFLATION RATE (BY ABOUT 1/2 PERCENT); AND B)

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GREATER RESULTANT COMMAND OF RESOURCES BY LDC'S,  
AMOUNTING TO SOME \$5 BILLION AFTER TAKING INTO ACCOUNT  
PRICE INCREASES FOR THEIR IMPORTS. MARRIS COMBINED  
THIS POINT WITH REFERENCE TO IMF (POLAK) CONCLUSION  
THAT MAJOR BURDEN OF OIL PRICE INCREASE IS BEING BORNE  
BY OECD COUNTRIES, ALSO EMPHASIZING THAT THE TWELVE  
SMALLER OECD COUNTRIES IN A DIFFICULT POSITION WERE  
NOW EXPECTED TO CONTINUE TO REGISTER A CURRENT DEFICIT  
IN 1977 OF AROUND \$L7-L8 BILLION RATHER THAN DECLINING  
TO \$L4 BILLION. MARRIS REPORTED THAT AT INTERIM  
COMMITTEE OTHER OECD COUNTRIES, IN EFFECT, DECIDED NOT  
TO PRESS THE US ON RATIFICATION OF THE OECD FINANCIAL  
SUPPORT FUND (FSF) PENDING OUTCOME OF DISCUSSIONS ON  
IMF'S PROPOSED "WITTEVEEN FACILITY". MARRIS IMPLIED  
THAT UNCERTAINTIES SURROUNDING THAT FACILITY AND THE  
NATURE OF FINANCING PROBLEM (UNDULY CONCENTRATED  
ON OECD, PARTICULARLY SMALLER COUNTRIES) WERE STRONG  
ARGUMENTS IN FAVOR OF FSF. MARRIS ASKED FOR FURTHER  
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INFORMATION ON LIKELY AMOUNTS AND DEGREE OF CONDITIONA-  
LITY TO BE ATTACHED TO IMF FACILITY. WITH RESPECT TO  
TRADE QUESTIONS, MARRIS' MAIN POINT WAS THAT GOVERN-  
MENTS MAY BE UNDERESTIMATING INFLUENCE OF CYCLICAL

FACTORS IN SECTORAL SITUATIONS THEY PERCEIVE AS STRUCTURAL; HOWEVER, MUCH OF THE CAUSE OF PROBLEMS IN SPECIFIC SECTORS MAY ALSO LIE IN CHANGING COMPETITIVE POSITIONS, PARTICULARLY VIS-A-VIS LDC'S. HE URGED THAT POST-CIEC RELATIONS WITH LDC'S SHOULD RECOGNIZE (AND NOT ERODE) FREE TRADE AND MARKET PRINCIPLES.

4. UK (BUTLER) UNDERLINED IMPORTANCE OF SUMMIT IN PROMOTING AGREEMENT AND CONVERGENCE BY PARTICIPANTS THROUGH THEIR RECOGNITION OF NOT ONLY INTERNATIONAL INTERDEPENDENCE BUT ALSO OF INTERLINKAGES AMONG ECONOMIC ISSUES. NO OPERATIONAL DECISIONS WERE TAKEN, BUT A NUMBER OF POSITIVE RESULTS SHOULD FLOW FROM THE MEETING. SUMMIT PARTICIPANTS ARE AWARE (MORE THAN AT PUERTO RICO) OF THE CONSIDERABLE PROBLEMS FACING THE WORLD ECONOMY BUT SOUNDED A NOTE OF CONFIDENCE THAT IT WOULD BE POSSIBLE TO MASTER THEM. IN THE MACRO-ECONOMIC FIELD, BUTLER SAID THAT, DESPITE NUANCES OF VIEWS, THERE WAS GENERAL AGREEMENT THAT JOB CREATION WAS THE MOST URGENT TASK, WHILE CONTINUING TO REDUCE INFLATION, AND EMPHASIZED THE COMMITMENT OF THE THREE MOST POWERFUL ECONOMIES TO MEET THEIR STATED GROWTH TARGETS. HE NOTED SPECIAL IMPORTANCE THE UK ATTACHED TO THE MENTION OF YOUTH UNEMPLOYMENT IN SUMMIT TEXTS AND ASKED WHETHER THE OECD MIGHT CONTRIBUTE TO THE CALL FOR "AN EXCHANGE OF EXPERIENCE AND IDEAS" IN THIS AREA. HE BRIEFLY SUMMARIZED OUTCOME ON ENERGY QUESTIONS.

5. IN REPLY TO UK QUERY, SEC GEN VAN LENNEP RECALLED RECENT OECD REPORT ON UNEMPLOYMENT PROBLEMS AND STATED OECD READINESS TO SEE WHETHER SOME MORE SYSTEMATIC APPROACH TO YOUTH UNEMPLOYMENT COULD BE DEVELOPED.  
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6. WITH RESPECT TO BALANCE OF PAYMENT FINANCING, US (COOPER) NOTED THAT THIS WAS SUMMIT TOPIC OF GREATEST HARMONY AND CONVERGENCE. THE PARTICIPANTS RECOGNIZED THE GLOBAL NATURE OF FINANCING PROBLEMS STEMMING FROM THE OPEC SURPLUS AND EMPHASIZED THE PRIMARY ROLE OF APPROPRIATE DOMESTIC DEMAND POLICIES. THE PROPOSED WITTEVEEN FACILITY AND A FURTHER EXPANSION OF IMF QUOTAS RECEIVED STRONG SUPPORT, AND THERE WAS AGREEMENT ON THE NEED TO STRIKE A BALANCE BETWEEN THE PRINCIPLE OF CONDITIONALITY IN IMF LENDING AND A DESIRE TO SEE THAT PRINCIPLE APPLIED FLEXIBLY TO TAKE INTO ACCOUNT INDIVIDUAL CIRCUMSTANCES. COOPER SAID THAT SAUDI ARABIA'S DECISION ON THE AMOUNT OF ITS CONTRIBUTION TO THE SPECIAL FACILITY WAS STILL UNDETERMINED, BUT, AFTER THE INTERIM COMMITTEE MEETING, HE HAD THE IMPRESSION FROM THE

SAUDI FINANCE MINISTER THAT HE WOULD SUPPORT THE PROPOSAL  
WITHIN HIS GOVERNMENT. REFERRING TO EARLIER SECRETARIAT  
ARGUMENT THAT NON-OIL COMMODITY PRICE INCREASE WILL  
BOOST OECD INFLATION, HE OBSERVED THAT THEIR IMPACT HAD  
TO BE ANALYZED NOT ONLY FROM STRUCTURAL BUT ALSO  
CYCLICAL VIEWPOINT. TO EXTENT LATTER INFLUENCE WAS  
OPERATING, PRICE RISE IN COMMODITIES SHOULD BE ASSESSED  
AGAINST INCREASE IN

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PRODUCTIVITY ASSOCIATED WITH THE ECONOMIC RECOVERY.  
HE SUGGESTED THAT THE SECRETARIAT TRY TO SORT OUT THE  
RELATIVE INFLUENCE ON COMMODITY PRICES OF SUPPLY  
CONSTRAINTS AND OF INCREASED DEMAND.

7. SMALLER OECD COUNTRIES GENERALLY CHIMED IN TO UNDER-  
LINE PRIORITY TO BE ACCORDED TO UNEMPLOYMENT PROBLEMS,  
MOST ALSO URGING NEED FOR FSF, PARTICULARLY IN VIEW OF  
UNCERTAINTIES WITH RESPECT TO NEAR-TERM IMPLEMENTATION  
OF WITTEVEEN FACILITY. FRANCE (FROMENT-MEURICE)  
ENDORSED CALL FOR FSF IN COURSE OF INTERVENTION STRES-  
SING THAT LACK OF PROMINENT REFERENCE IN SUMMIT  
DECLARATION OR APPENDIX ON INTERNATIONAL MONETARY

SYSTEM SHOULD NOT BE TAKEN AS ACCORDING LOW PRIORITY  
TO THIS ISSUE (QUOTING SENTENCE IN APPENDIX ON INTENTION  
"TO STRIVE TO INCREASE MONETARY STABILITY"). SWISS  
(JACOBI) EMPHASIZED NEED TO EXTEND CONCEPT OF LIQUIDITY  
TO INCLUDE BANK LENDING AND TO HAVE ADEQUATE INFORMATION  
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ON SUCH LENDING. HE FAVORED PROMOTING LINKS BETWEEN  
BANKS AND INTERNATIONAL INSTITUTIONS. JACOBI STRESSED  
NEED TO PROMOTE PROMPT ADJUSTMENT OF DEFICITS AND TO  
RECOGNIZE TEMPORARY ROLE OF FINANCING, BUT HE ALSO  
SPOKE IN FAVOR OF ACTIVATING THE FSF.

8. JAPANESE REP (YOSHINO) AGREED THAT GREATEST BENEFIT  
OF SUMMIT WAS POLITICAL IMPETUS GIVEN TO VARIOUS ISSUES,  
BUT HE STRESSED THAT IMPLEMENTATION OF MACRO-ECONOMIC  
TARGETS WOULD NOT BE EASY, CAUTIONING THAT IN JAPAN  
THERE WERE CONSIDERABLE DOMESTIC POLITICAL CONSTRAINTS  
TO FURTHER STEPS OF ECONOMIC STIMULUS. IN THIS  
CONNECTION, YOSHINO ALSO CALLED FOR BRINGING THE FSF  
INTO FORCE, ARGUING THAT GOJ HAD WORKED HARD TO GET IT  
THROUGH DIET AND THAT FAILURE TO IMPLEMENT IT COULD  
AFFECT DIET'S ATTITUDE TOWARD OTHER GOJ COMMITMENTS.

9. QUESTIONED ON MEANING OF SUMMIT LANGUAGE RE  
"FLEXIBILITY" IN USE OF IMF RESOURCES AND ON HIS  
REFERENCE TO "INDIVIDUAL CIRCUMSTANCE" (PARA 6 ABOVE),  
COOPER SAID IN HIS INTERPRETATION THIS DID NOT LESSEN  
ATTACHMENT TO CONDITIONALITY IN LENDING FROM WITTEVEEN  
FACILITY. RATHER, IT MEANT THAT CONDITIONALITY WOULD  
NOT EXCEED THAT NORMALLY APPLIED TO DRAWINGS IN  
FOURTH CREDIT TRANCHE. COOPER BELIEVED SAUDI COMMENTS,  
AT TIME OF INTERIM COMMITTEE, SUGGESTING REDUCED  
CONDITIONALITY WERE NOT FIRM POSITION AND HE EXPECTED  
THAT FACILITY WOULD INCLUDE APPROPRIATE CONDITIONALITY.  
HOWEVER, HE POINTED OUT THAT CONDITIONS HAVE CHANGED  
CONSIDERABLY OVER RECENT YEARS AND THAT STANDARDS OF  
CONDITIONALITY MIGHT HAVE TO BE ADJUSTED TO SPECIFIC  
CONDITIONS OF BORROWING COUNTRIES. AS FOR FSF, USG  
IS STILL AWAITING OUTCOME OF NEGOTIATIONS ON FACILITY  
BEFORE DECIDING WHETHER TO PUSH IT. HE ARGUED THAT  
THERE IS A CERTAIN DEGREE OF SUBSTITUTABILITY BETWEEN  
THE FSF AND IMF FACILITY AND RECALLED POLITICAL  
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FACTS OF LIFE IN CONGRESS REGARDING FSF.

10. NEW ZEALAND DEL (WESTRATE, FROM PERMANENT DELEGATION) SUGGESTED PREPARATIONS FOR OECD MINISTERIAL SHOULD TAKE ACCOUNT OF SUMMIT BY A) MONITORING ECONOMIC PERFORMANCE; B) ANALYZING HOW POLICIES MIGHT BE ADJUSTED TO RESPOND TO CHANGED SITUATIONS AND C) ASSESSING PERFORMANCE IN LIGHT OF OECD'S MEDIUM-TERM STRATEGY WITH VIEW TO ELABORATING STRATEGY IN MORE DETAIL. HE CALLED FOR HIGHLIGHTING PROBLEM OF BALANCE OF PAYMENTS ADJUSTMENT PROCESS AT OECD MINISTERIAL AS WELL AS CONCRETE COMMITMENT ON ECONOMIC POLICY GOALS TO BALANCE TRADE PLEDGE COMMITMENT.

11. SUMMARIZING SUMMIT CONSIDERATION OF TRADE POLICY, CANADIAN REP (TOWE) SAID THE PRINCIPALS WERE COGNIZANT OF CURRENT STRAINS BUT WERE DETERMINED TO CONTROL ECONOMIC EVENTS AND TO SOUND A NOTE OF CONFIDENCE.

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THEY GAVE IMPETUS TO MOVING THE MULTILATERAL TRADE  
NEGOTIATIONS FORWARD IN THE KEY AREAS SPECIFIED, BUT  
REALIZED THAT A STRICT ADHERENCE TO PREVIOUSLY ANNOUNCED

SCHEDULE MIGHT STAND IN WAY OF PROGRESS. NO SPECIFIC REFERENCE MADE TO OECD TRADE PLEDGE, SINCE THAT WOULD HAVE BEEN INAPPROPRIATE, BUT THE INTENTIONS VOICED IN THE SUMMIT STATEMENT AND APPENDIX WERE SIMILAR TO THOSE CONTAINED IN THE PLEDGE.

12. FRAU STEEG (TRADE COMMITTEE CHAIRMAN AND FRG REP) RECALLED RECENT DISCUSSION OF TRADE COMMITTEE ON QUESTION OF STATUS OF TRADE PLEDGE AND CHARACTERIZED MAJORITY OF DELEGATES AS FAVORING RENEWAL WITHOUT CHANGE. SHE INTENDS TO PREPARE FORTHCOMING MEETING OF TRADE COMMITTEE (MAY 23-24) WITH CHAIRMAN'S LETTER WHICH WOULD CONVEY DRAFT REPORT TO THE MINISTERIAL COUNCIL RECOMMENDING: A) RENEWAL OF PLEDGE WITHOUT CHANGE; B) SOME REFERENCE TO SECTORAL DIFFICULTIES/ CONFIDENTIAL

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STRUCTURAL CHANGES (TO USE TERMS LOOSELY, SHE SAID) AND C) SOME REFERENCE TO EXISTING CONSULTATION MECHANISM. SHE URGED THAT DELEGATES TO TRADE COMMITTEE MEETING BE EMPOWERED TO TAKE DECISIONS.

13. COOPER SAID US COULD GO ALONG WITH RENEWAL OF TRADE PLEDGE, BUT FELT THAT CONTEMPORARY RATIONALE NEEDS TO BE GIVEN TO PLEDGE, PERHAPS DRAWING ON SUMMIT LANGUAGE, SINCE INTRODUCTORY PARAGRAPH IS BECOMING ANACHRONISTIC. FURTHERMORE, HE WOULD AGREE THAT THE PLEDGE NEEDS TO BE STRENGTHENED BY REFERENCE TO MULTILATERAL HANDLING (CONSULTATIONS) OF SECTORAL PROBLEMS IN A MANNER WHICH WOULD AVOID PROTECTIONIST PRESSURES AND TAKE OTHER COUNTRIES' CONCERNS INTO ACCOUNT. HE FELT THE TRADE COMMITTEE COULD DISCUSS THESE SUGGESTIONS AND DECIDE HOW BEST TO HANDLE THEM. EC REP SAID THAT THE NINE FAVOR RENEWAL "AS IS" SINCE THE PROS AND CONS OF STRENGTHENING VS. DIMINISHING OBLIGATIONS OF PLEDGE ARE WELL BALANCED. NON-EC COUNTRIES GENERALLY EXPRESSED WILLINGNESS TO RENEW PLEDGE, WITH SOME ACKNOWLEDGEMENT OF LOGIC OF COOPER'S SUGGESTIONS FOR UPDATING. HOWEVER, NEW ZEALAND, SPAIN AND TURKEY INDICATED THAT FINAL COMMITMENT NOT YET POSSIBLE. (TURKISH DECISION WILL ONLY BE TAKEN AFTER JUNE 5 ELECTIONS, AND SPANISH DECISION WILL BE "AT LAST MOMENT" IN VIEW OF PRE-ELECTORAL PERIOD.) AUSTRALIA, ITALY AND NEW ZEALAND OPPOSED RENEWAL FOR PERIOD LONGER THAN ONE YEAR. IN SUMMARIZING DISCUSSION ON PLEDGE, CHAIRMAN SAID SOUNDNESS OF US CONCERNS WAS RECOGNIZED BUT THAT IT REMAINED TO BE DETERMINED WHETHER LANGUAGE OF PLEDGE ITSELF OR OF SURROUNDING TEXTS SHOULD BE MODIFIED. HE ALSO NOTED OPPOSITION TO RENEWAL FOR MEDIUM-TERM PERIOD.



14. ALTHOUGH SPECIFIC CONSIDERATION OF STRUCTURAL  
QUESTIONS WAS POSTPONED TO NEXT MEETING, SOME DISCUSSION  
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TOOK PLACE UNDER TRADE POLICY RUBRIC. CANADA (TOWE)  
CHARACTERIZED THE SUMMIT LANGUAGE AS RECOGNIZING  
EXISTENCE OF STRUCTURAL PROBLEMS, WITHOUT SPECIFYING  
SOLUTION. FRENCH REP SAID THAT GOF SEES THREE MAJOR  
CONCLUSIONS OF THE SUMMIT ON TRADE POLICY:

- A) POLITICAL COMMITMENT TO TRADE PLEDGE;
- B) IMPETUS GIVEN TO MTN; AND
- C) NEED TO TAKE INTO CONSIDERATION STRUCTURAL  
CHANGES IN WORLD ECONOMY;

AND CONSIDERS THE FINAL POINT TO BE AS IMPORTANT AS  
THE FIRST TWO.

15. IN RESPONSE TO NETHERLANDS REP ASSERTION THAT  
SUMMIT LANGUAGE APPEARED TO MOVE TOWARD LDC POSITION  
THAT TRADE ISSUES BETWEEN DEVELOPED AND DEVELOPING  
COUNTRIES WERE OF A STRUCTURAL NATURE, COOPER DENIED  
THAT THIS LANGUAGE COULD BE INTERPRETED AS ENDORSEMENT  
OF NIEO PRINCIPLES.

16. DISCUSSION OF NORTH-SOUTH AND EAST-WEST ISSUES  
IS REPORTED IN SEPTTEL. THIS MESSAGE NOT CLEARED  
WITH COOPER.  
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## Message Attributes

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